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FM AMEMBASSY MOSCOW
TO RUEHC/SECSTATE WASHDC PRIORITY 6626
INFO RUFLHG/AMCONSUL LENINGRAD 7947
RUDKRB/AMEMBASSY BELGRADE 7860
RUFHEB/AMEMBASSY BERLIN 3960
RUDKAR/AMEMBASSY BUCHAREST 8272
RUDKDA/AMEMBASSY BUDAPEST 7370
RUDKRP/AMEMBASSY PRAGUE 8063
RUDKSA/AMEMBASSY SOFIA 7379
RUDKRW/AMEMBASSY WARSAW 9479
RUEHVI/AMEMBASSY VIENNA 9086
RUFHOL/AMEMBASSY BONN 3153
RUEHBS/AMEMBASSY BRUSSELS 2491
RUEHLD/AMEMBASSY LONDON 5001
RUFHFR/AMEMBASSY PARIS 2099
RUEHRO/AMEMBASSY ROME 7467
RUDKGPO/AMEMBASSY THE HAGUE 1377
RUFHJA/USMISSION USBERLIN 5835
RUFHNA/USMISSION USNATO 2030
RUEHDC/USDOC WASHDC
RUEHRQC/AMCONSUL MILAN 0084
RUFHOLB/AMCONSUL DUSSELDORF 0155
RUFHFT/AMCONSUL FRANKFURT 5442
RUEHROA/AMCONSUL FLORENCE 0039

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RUEHOT/AMEMBASSY OTTAWA 1627

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C O N F I D E N T I A L MOSCOW08339

BRUSSELS FOR USEC

PARIS ALSO FOR OECD

E.O. 12065: GDS 7/8/88 (ZIMMERMANN, WARREN) OR-M

TAGS: EEW, UR, ENGR

SUBJECT: COMPRESSORS FOR SOVIET EXPORT GAS PIPELINE

REFS: (A) ROME 15133 (NOTAL), (B) ROME 15353 (NOTAL),

(C) PARIS 21681, (D) PARIS 22619, (E) PARIS 23260 (NOTAL)

(F) BONN 14346 (NOTAL)

1. CONFIDENTIAL - ENTIRE TEXT.

2. BEGIN SUMMARY - IN RECENT WEEKS THE SOVIET PRESS HAS BALLYHOOFED SOVIET ABILITY TO PRODUCE THE TURBINES FOR THE EXPORT GAS PIPELINE WITHIN THE CONTRACTUAL TIME FRAMES. SOVIET CAMPAIGN REACHED CULMINATION ON JULY 8 WHEN THE CPSU CENTRAL COMMITTEE AND THE COUNCIL OF MINISTERS "APPROVED" THE "PATRIOTIC" INITIATIVE OF THE SOVIET WORKERS. CONVERSATIONS WITH WESTERN DIPLOMATICS AND BUSINESSMEN HERE REVEAL CONSIDERABLE SKEPTICISM, ALTHOUGH ONE EXCELLENT SOURCE BELIEVES THE SOVIETS CAN MAKE GOOD ON THEIR STATED INTENTION OF STARTING SERIAL PRODUCTION OF 25 MEGAWATT TURBINES IN 1983. LOCAL CREUSOT LOIRE REPRESENTATIVE REPORTED RUEFULLY THAT HIS COMPANY REPRESENTATIVES RETURNED TO PARIS EMPTY-HANDED AFTER JULY 6 MEETING WITH MACHINOIMPORT IN MOSCOW. IN PRIVATE MEETINGS AS WELL AS PUBLICLY, SOVIETS HAVE BEEN STRESSING THAT THEY WILL ALLOCATE TO THE PIPELINE AND THE NECESSARY TURBINES WHATEVER PRIORITY AND FUNDS ARE NEEDED TO MEET TARGET DATES. END SUMMARY.

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3. JULY 8 SOVIET PRESS CARRIES BRIEF RESOLUTION OF CENTRAL COMMITTEE AND COUNCIL OF MINISTERS "APPROVING" THE "PATRIOTIC" INITIATIVE OF SOVIET WORKERS TO COMPLETE THE EXPORT GAS PIPELINE ON SCHEDULE INCLUDING THE PRODUCTION OF SOVIET 25 MEGAWATT TURBINES AT THE ALEKSANDR NEVSKIY PLANT IN LENINGRAD. RESOLUTION STATES THAT EXPORT DELIVERIES TO THE WEST WILL START IN 1984 AS CALLED FOR IN GAS CONTRACTS WITH WESTERN COUNTRIES.

4. RESOLUTION WAS PRECEDED BY A BUILDUP OF SEVERAL WEEKS DURING WHICH TASS AND SOVIET MEDIA REPORTED ON THE MEETINGS OF DIFFERENT GROUPS OF SOVIET WORKERS DETERMINED TO OVERCOME THE U.S. BAN ON THE EXPORT OF GAS TECHNOLOGY BY INCREASED SOVIET PRODUCTION OF THE NECESSARY EQUIPMENT. TYPICAL TASS ITEM OF JUNE 24 QUOTES G. VELIKANOV OF THE ALEKSANDR NEVSKIY WORKS IN LENINGRAD AS SAYING THAT THE NEWGAS PUMPING UNITS WOULD START BEING MANUFACTURED AT HIS PLANT IN 1982. ANOTHER TASS ITEM CLAIMS THAT THE SOVIET-DESIGNED UNITS WILL BE 1.5 PERCENT MORE EFFICIENT THAN THOSE OF GE, AND WILL BE ABLE TO PUMP GAS AT 100 ATS. (COMMENT: DASKO DODER PIECE IN WASHINGTON POST JUNE 30 CONTAINS AMONG ITS VARIOUS INACCURACIES A SOVIET CLAIM THAT THEIR TURBINES WILL BE 1.5 TIMES MORE EFFICIENT THAN THOSE OF GE. THE SOVIETS HAVE NOT MADE THAT CLAIM). JULY 7 PRAVDA REPORTED THAT THE FIRST CONCRETE HAS BEEN LAID AT THE LENINGRAD METALLURGICAL FACTORY (IMZ) FOR TWO TEST BENCHES FOR THE NEWTURBINES WHICH ARE TO BE TESTED DURING MANUFACTURING TO SAVE TIME.

5. IN PRIVATE CONVERSATIONS THE SOVIETS HAVE STATED THEIR DETERMINATION TO BUILD THE EXPORT PIPELINE ON TIME WITH THEIR OWN PUMPING EQUIPMENT. DIRECTOR GENERAL VOLCHKOV OF MACHINOIMPORT TOLD A VISITING BRITISH COMPANY LAST WEEK THAT "SUBSTANTIAL EXTRA FUNDS HAD BEEN ALLOTTED FOR THE DEVELOPMENT AND PRODUCTION OF 25 MEGAWATT TURBINES. PRODUCTION IS EXPECTED TO BEGIN IN EIGHTEEN MONTHS. DURING THE NEXT EIGHTEEN MONTHS, EXISTING DESIGNS WILL BE REWORKED TO ACCOMMODATE THE NECESSARY CHANGES REQUIRED FOR SUCH LARGE DEVICES."

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6. AT A RECENT RECEPTION, DEPUTY PRIME MINISTER KOSTANDOV TOLD FRG AMBASSADOR MEYER-LANDRUT THAT THE SOVIETS HAD NOWMADE IT A MATTER OF HONOR TO COMPLETE THE EXPORT PIPELINE ON SCHEDULE. NECESSARYRESOURCES AND EQUIPMENT WOULD BE SHIFTED FROM OTHER PROJECTS TO DO SO. KOSTANDOV MENTIONED TWO TECHNICAL PROBLEMS WHICH THE USSR FACES. THE COMPRESSORS THE SOVIETS NOWBUILD ARE NOT POWERFUL ENOUGH; THE SOVIETS HOPE TO COMPENSATE FOR THIS BY INSTALLING ADDITIONAL COMPRESSORS. MORE PUMPING STATIONS WILL THEREFORE BE NEEDED AND INSTRUCTIONS FOR THEIR CONSTRUCTION HAVE ALREADY BEEN ISSUED. SECONDLY, THE SOVIET ROTORS WEAR OUT MORE QUICKLY THAN THEIR WESTERN EQUIVALENTS. IF THE ROTORS CANNOT BE IMPROVED, THE SOVIETS WILL PRODUCE THE NECESSARY SPARE PARTS IN SUFFICIENT QUANTITIES TO ENSURE QUICK REPLACEMENT. ALTHOUGH MEYER-LANDRUT'S ACCOUNT OF HIS CONVERSATION WAS VAGUE, AND DOES NOT TRACK WITH THE SOVIET EMPHASIS ON THEIR NEW25 MEGAWATT DESIGN, FRG ECONOMIC COUNSELOR ASSURES US THAT KOSTANDOV'S POINT WAS SIMPLY THAT THE USSR IS GOING TO BUILD THE LINE, WHATEVER IT TAKES.

7. WE HAVE CANVASSED ABOUT TWENTY WESTERN EXPERTS HERE FOR THEIR ASSESSMENT OF THE SOVIET ABILITY TO MANUFACTURE THE TURBINES. ALL ARE AGREED THAT INITIAL GAS DELIVERIES WILL TAKE PLACE AS SCHEDULED IN 1984 BUT THEY WILL PROBABLY BE DELIVERED THROUGH THE SOYUZ PIPELINE WHICH HAS EXCESS CAPACITY. SOME WESTERNERS BELIEVE THAT THE SOVIETS ARE EXAGGERATING BOTH THE CAPABILITIES OF THEIR NEWTURBINE AND THEIR ABILITY TO START SERIAL PRODUCTION IN EIGHTEEN MONTHS. ONE EX-GE ENGINEER NOTES THAT THE GE HEAVY DUTYTURBINES FIRST APPEARED IN 1962 BUT THAT IT TOOK GE NO LESS THAN EIGHTEEN YEARS THEREAFTER TO PERFECT THE DESIGN. WE HAVE BEEN UNABLE TO CHECK OUT ONE STORY TOLD US BY DEPUTY FOREIGN TRADE MINISTER SUSHKOV ABOUT A GERMAN DELEGATION WHICH HAD VIEWED THE PROTOTYPE TURBINE AND FOUND IT EXCELLENT. HOWEVER, DURING THE WEEK OF JULY 12 A CREUSOT LOIRE DELEGATION IS SCHEDULED TO VISIT LENINGRAD FOR THAT PURPOSE. WE WILL STAY IN TOUCH WITH LOCAL CREUSOT LOIRE REPRESENTATIVE (SEE BELOW) AND HOPE THAT EMBASSY PARIS WILL BE ABLE TO OBTAIN INFORMATION

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FROM CREUSOT LOIRE SOURCES AS WELL.

8. AT JULY 8 RECEPTION HERE OF BANQUE NATIONALE DE PARIS, ADMINISTRATOR THOMAS AND ECON COUNSELOR SPOKE AT LENGTH WITH GEORGE ZHDANOV, MOSCOW REPRESENTATIVE FOR CREUSOT LOIRE. ZHDANOV ADMITTED RUEFULLY THAT THE CREUSOT LOIRE REPRESENTATIVES WHO HAD MET WITH MACHINOIMPORT ALONG WITH THEIR MANNESMANN PARTNERS ON JULY 6 HAD RETURNED TO PARIS EMPTY-HANDED. HE ALSO REPORTED THAT CREUSOT LOIRE HAD DROPPED THE HALF-BILLION DOLLAR SOUR GAS PLANT PROJECT FOR ASTRAKHAN BECAUSE A U.S. LICENSE WAS INVOLVED IN THAT PROJECT AS WELL. ZHDANOV SAID THAT CREUSOT LOIRE HAD

LOST THE TWENTYMILLION FRANCS IT HAD INVESTED IN THE ASTRAKHAN DESIGN AND STOOD TO LOSE A GREAT DEAL MORE IF, AS HE EXPECTED, THE CONTRACT FOR THE PIPELINE IS ALSO VOIDED. (NOTE: CANADIAN ECONOMIC MINISTER HAZEN PROMPTLY MENTIONED TO ECON COUNSELOR THAT CREUSOT LOIRE'S WITHDRAWAL FROM ASTRAKHAN OPENS UP THE PLANT CONSTRUCTION TO TECHNIP, ANOTHER FRENCH FIRM.)

9. WITH RESPECT TO DODER STORY MENTIONED ABOVE, NONE OF OUR SOURCES HAS MENTIONED THE POSSIBILITY THAT WESTERN COMPANIES EVER STOOD TO PROVIDE TURBINES FOR THE FIVE DOMESTIC PIPELINES THE SOVIETS ARE BUILDING FROM URENGOY TO EUROPEAN RUSSIA. DODER'S SOURCE WAS THE LOCAL REPRESENTATIVE OF FINSIDER.

10. DURING COURSE OF RECENT CONVERSATIONS WITH EUROPEAN BUSINESSMEN HERE, ECON COUNSELOR HAS NOWHEARD TWO GERMANS AND TWO FRENCHMEN EXPRESS THEIR PERSONAL AGREEMENT WITH THE U.S. DECISION. IN EACH CASE, THE BANKERS AND BUSINESSMEN STARTED BY SAYING THAT THE DECISION HURT THEIR COMPANIES. THEN, THEY ADDED THAT PERSONALLY THEY AGREED WITH THE HARDLINE U.S. POSITION ON TRADE WITH THE USSR. AT BNP RECEPTION MENTIONED ABOVE, A NUMBER OF SOVIET BANKERS, AFTER A GOOD MANY DRINKS, WERE NOT HOSTILE IN CONVERSATION WITH ECON COUNSELOR BUT

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SIMPLY WONDERED WHAT WOULD HAPPEN NEXT. NONE SUPPORTED THE SOVIET DECISION TO INVADE AFGHANISTAN, LOOKING GRIM WHEN ECON COUNSELOR MENTIONED THAT EVENT AS STARTING POINT OF THE SOURING OF EAST/WEST TRADE RELATIONS. ONE SAID, WITH THE AGREEMENT OF HIS ASSOCIATES, THAT THE SOVIET BANKS AND THE SOVIET FOREIGN TRADE MINISTRY "HAVE NO POWER." HE MEANT THAT THEY SUFFER FOR THE DECISIONS TAKEN BY OTHERS.

11. COMMENT: ONLY ZHDANOV AMONG WESTERNERS HERE HAS EXPRESSED THE VIEWTHAT THE SOVIETS WILL BE ABLE TO DO PRECISELY WHAT THEY SAY. AN ENGINEER BY BACKGROUND WITH RUSSIAN MOTHER TONGUE WHO HAS JUST BEEN INVOLVED IN HOURS OF DISCUSSION WITH SOVIET ENGINEERS ON THE PROJECT, WE TEND TO GIVE MORE CREDENCE TO HIS VIEWS THAN THOSE OF BANKERS AND BUSINESSMEN NOT REALLY FAMILIAR WITH GAS TECHNOLOGY OR LENINGRAD PRODUCTION FACILITIES. WE BELIEVE THAT THE SOVIETS HAVE INDEED ACCORDED THE PIPELINE HIGHEST PRIORITY, NOT ONLYBECAUSE OF THE SOVIET NEED FOR HARD CURRENCY, BUT BECAUSE THEY FEEL THAT SOVIET PRESTIGE WOULD BE WELL SERVED IF THEY COULD REPLACE U.S. TECHNOLOGY WITH THEIR OWN. WE ARE NOT CERTAIN THAT THE SOVIETS HAVE CONCLUSIVELY DECIDED TO ANNUL THE EXISTING COMPRESSOR CONTRACTS WITH WESTERN FIRMS; TO DO SO, INSTEAD OF GIVING THEIR WESTERN PARTNERS MORE TIME IN WHICH TO CONSIDER ALTERNATIVES, WOULD WORK AGAINST THE BENEFITS THE SOVIETS HOPE TO OBTAIN IN THE AREA OF WORSENING US/EUROPEAN RELATIONS. ON BALANCE,WE ANTICIPATE THAT THE PIPELINE WILL COME ON STREAM SOMEWHAT LATE, PERHAPS OPERATED BY SOME CRAZY QUILT SYSTEM INVOLVING SOVIET 25 MEGAWATT TURBINES, SOME WESTERN TURBINES, AND A LARGE NUMBER OF THE 10 MEGAWATT TURBINES THE SOVIETS NOWPRODUCE. HARTMAN

END OF MESSAGE

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